



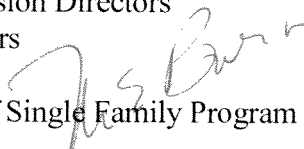
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

MAR 24 2010

MEMORANDUM FOR: All Processing and Underwriting Division Directors
All Program Support Division Directors

FROM: Margaret E. Burns, Director, Office of Single Family Program
Development, HUP 

SUBJECT: Neighborhood Stabilization Program and FHA Financing

Local governments are using their Neighborhood Stabilization Program (NSP) funds in a variety of ways involving FHA financing, most notably but not limited to the 203(k) program. To support NSP, which is administered by the Office of Community Planning and Development, the following guidance should be used when determining eligibility for FHA financing.

- **Combined Loan-to-Value:** If a government entity is engaged in development or revitalization efforts, the combined loan-to-value for the 203(k) Program may exceed 110 percent [24 CFR 203.50(g)].
- **Multiple Liens:** When local governments are combining the 203(k) program with NSP or other HUD funds, it is permissible for the use of these funds to result in more than two liens against the property.
- **Area Median Income:** NSP programs that use an Area Median Income in excess of 115 percent are acceptable provided that they do not exceed 140 percent [24 CFR 203.41 (a)(1)].
- **Downpayment Assistance:** Regardless of the source of funds provided by the local government, it cannot provide downpayment assistance to meet FHA's cash investment requirement if it is also the seller of the subject property [12 U.S.C. 1709(b)(9)]. However, should a local unit of local government transfer title of the property to another entity (such as a nonprofit organization) prior to the sale, it is then permissible for that unit of local government to provide downpayment assistance in conjunction with FHA financing.

If you should have questions regarding this memorandum, please contact Susan Cooper at 202.402.4026 or Deanna DiMarino at 202.402.3197.